**FDIC NEW YORK REGION REGULATORY TELECONFERENCE:**
**CRA – UNDERSTANDING COMMUNITY DEVELOPMENT**

**Disclaimer**



**August 13, 2015 - Call Transcript**

**Regional Director John Vogel**: Good afternoon everyone and welcome to today's conference call entitled CRA – Understanding Community Development. I'm John Vogel, the New York Regional Director for the FDIC. I would like to thank you for joining us.

We view these conference calls as an opportunity to share regulatory guidance and discuss items of supervisory importance with a wide audience. These calls also present us with the opportunity to hear directly from you regarding any questions you may have on issues discussed.

In addition to our quarterly conference calls, the FDIC partners with various trade associations to conduct Directors' Colleges. The Directors' College is an interactive one-day seminar that provides ongoing education to bank directors on current topics in various elements of bank supervision. It is designed to help directors, both new and experienced, stay abreast of the changing regulatory and economic environment.

The FDIC also provides a Technical Assistance Video Program, which is a series of educational videos designed to provide useful information to bank directors, officers and employees on areas of supervisory focus and regulatory changes. One of the videos discusses the Community Reinvestment Act and these videos are available on the fdic.gov website.

Additionally, the FDIC's New York Regional Office issues a quarterly newsletter on compliance and CRA "hot topics". In fact, the most recent newsletter issued on June 30th included an article that discussed tips for documenting community development activities.

We very much appreciate your participation in today's call. Your confirmation email included a link to the PowerPoint slides for the various topics being covered. The PowerPoint slides should aid you in following today's presentation and can be used for future reference.

If you have any questions relating to this presentation, please email us at nycalls@fdic.gov. There will be a question and answer session at the end of the presentation. We request that you email any questions to the nycalls@fdic.gov mailbox.

A written transcript and question and answer document will be posted to the same Web link you used to register for today's call.

With me today are three presenters, Division of Depositor and Consumer Protection Senior Review Examiner Jim Keller, Review Examiner Janice Rosenberg, and Valerie Williams, Regional Manager, Community Affairs. During the call today, they will:

-Explain the regulatory definition of community development
-Define and provide examples of community development activities
-Discuss resources and strategies for identifying community development activities.
and

-Discuss best practices for tracking and documenting community development activities.

It's now my pleasure to turn the program over to Senior Review Examiner Jim Keller who will begin the presentation.

**Review Examiner Keller**: Thank you, John. Today we are going to discuss several topics related to community development that will help you prepare for your next CRA evaluation. We are going to start off by going over the definition of community development. It is important to remember that the definition of community development spans all examination methods (small banks, intermediate small banks, large banks, wholesale / limited purpose banks, and banks under a strategic plan).

The CRA regulation defines community development as:

-Affordable housing targeted to low- or moderate-income individuals or families
-Community services targeted to low- or moderate-income individuals or families
-Activities that promote economic development by financing small businesses and small farms

**Continuing now on slide 3**

-Activities that revitalize or stabilize:
- low- or moderate-income census tracts
- distressed or underserved non-metropolitan middle-income census tracts and
- designated disaster areas

-The last category is loans, investments, and services that support, enable, or facilitate Neighborhood Stabilization Program eligible activities in designated target areas

During the call today, we will refer to these as the community development categories.

Let's take a closer look at each one of these categories. **Please turn to slide 4**

The first category of community development is affordable housing targeted to low- and moderate-income individuals or families. Specifically, mortgage or rent payments must be affordable for a low- or moderate-income family or individuals located in the area where the property is located. You can review factors such as demographic, economic, and market data to determine if the housing can accommodate low- or moderate-income individuals. A key point to remember is that the housing does not have to be located in low- or moderate-income census tracts in order to be considered affordable housing. **Please turn to slide 5**

The second category of community development is community services targeted to low- or moderate-income people. Community services include such things as child care, educational, health, or social services targeted to low- or moderate-income persons. There are several types of community services that can qualify. The key point to remember is that the activity has to be targeted to low- or moderate-income people. **Please turn to slide 6**

The third category of community development is activities that promote economic development by financing small businesses and small farms. In order to be considered as economic development, the activity must meet both a size and a purpose test. First let's look at the size test. **Please turn to slide 7**

Under the size test, a small business or farm is one that meets the size eligibility standards of the Small Business Administration's Development Company (SBDC) or Small Business Investment Company (SBIC) programs, **or** one with gross annual revenues of $1 million or less

For the purpose test, an economic development activity promotes permanent job creation, retention, and/or improvement for low- or moderate-income people or low- or moderate-income census tracts or areas targeted for redevelopment by federal, state, local, or tribal governments. It is presumed that any loan to or investment in an SBDC, SBIC, Rural Business Investment Company, New Markets Venture Capital Company, or New Markets Tax Credit-eligible Community Development Entity promotes economic development.

Please note that the economic development category was included in the proposed revisions to the Interagency CRA Q&A's published in September 2014. So, you are encouraged to carefully review those Q&A's once they are finalized. **Please turn to slide 8**

The fourth community development category is activities that revitalize or stabilize low- or moderate-income areas, distressed or underserved non-metropolitan middle-income areas, or designated disaster areas. Activities that revitalize or stabilize these areas help attract new, or retain existing, businesses or residents. **Please turn to slide 9**

It can be assumed that an activity revitalizes or stabilizes a low- or moderate-income area if the activity has been approved by a federal, state, local, or tribal government plan for the revitalization or stabilization of the census tract. Also, it can be assumed the activity qualifies if it has been approved by the governing board of an Enterprise Community or Empowerment Zone and is consistent with the board's strategic plan. Enterprise Communities and Empowerment Zones are distressed areas specifically targeted for redevelopment by the federal government. **Please turn to slide 10**.

It is important to note that some loans may provide only indirect or short-term benefits to low- or moderate-income individuals in a low- or moderate-income census tract. Therefore, these loans are not considered to have a community development purpose. For example, a loan for upper-income housing in a low-income census tract is not considered to have a community development purpose simply because of the indirect benefit to low- or moderate-income persons from construction jobs or the increase in the local tax base that supports enhanced services to low- and moderate-income area residents. Alternatively, a loan for an anchor business in a depressed area (or a nearby area) that employs or serves residents of the area, and thus stabilizes the area, may be considered to have a community development purpose. For example, a loan for a new pharmacy in a low-income census tract that will employ and provide supplies to residents of the area promotes community development. **Please turn to slide 11.**

To be considered under the distressed non-metropolitan middle-income revitalize/stabilize prong of community development, the activity must explicitly help to attract new, or retain existing residents or businesses in the community.

The agencies maintain a list of the distressed and underserved non-metropolitan middle-income geographies on the FFIEC website (ffiec.gov). The list on the website is reviewed and updated annually by the agencies. In order to account for year-to-year changes in the distressed and underserved tracts, there is a one-year lag period for geographies removed from the list. Therefore, activities undertaken in the distressed or underserved tracts that are included in the list will be honored for 12 months after a distressed or underserved tract is removed from the list. **Please turn to slide 12.**

To qualify under the underserved non-metropolitan middle-income revitalize/stabilize prong of community development, an activity must facilitate the construction, expansion, improvement, maintenance, or operation of essential infrastructure. Further, activities that facilitate essential infrastructure must be for one of the following five purposes: health services, education, public safety, industrial parks, or affordable housing. Lastly, activities undertaken in underserved areas must benefit the entire community, including LMI individuals. **Please turn to slide 13.**

The third and final area of the revitalize/stabilize prong of community development is designated disaster areas. A "designated disaster area" is a major disaster area designated by the Federal Government, in particular, Major

Disaster Declarations administered by the Federal Emergency Management Agency. All activities relating to disaster recovery that revitalize or stabilize designated disaster areas will be considered. However, greater weight is given to those activities that are most responsive to community needs, including the needs of low- or moderate-income individuals or neighborhoods. **Please turn to slide 14**

The community development definition was revised in 2010 to include loans, investments, and services by financial institutions that support, enable, or facilitate projects or activities that meet the "eligible uses" criteria described in Section 2301(c) of the Housing and Economic Recovery Act of 2008 and are conducted in designated target areas identified in plans approved by HUD under the Neighborhood Stabilization Program, which is also referred to as NSP.

We will be covering the eligible uses on slides 15 and 16. **Please turn to slide 15 now.**

Section 2301(c) of the Housing and Economic Recovery Act establishes five activities that are "eligible uses" of NSP funds. These are:
(1) establish financing mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties, including such mechanisms as soft-seconds, loan loss reserves, and shared equity loans for low- and moderate-income homebuyers;
(2) purchase and rehabilitate homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop such homes and properties; **Please turn to slide 16**.

(3) establish and operate land banks for homes and residential properties that have been foreclosed upon;
(4) demolish blighted structures; and
(5) redevelop demolished or vacant properties.

Favorable CRA consideration can be given for activities that benefit low-, moderate-, and middle-income individuals and geographies in NSP target areas.
Please note that the community development definition was only expanded to include NSP activities on a temporary basis. The expanded definition included a sunset provision which could be invoked as early as the end of this year.

So, these are the five categories that comprise community development. However, there are other conditions that must be met before an activity can be qualified during your CRA evaluations. **Please turn to slide 17.**

There are two other conditions that must be satisfied in determining whether an activity is qualified as community development:

First, the activity's primary purpose must be community development, in other words one of the five categories that we just discussed, and

Secondly the activity must benefit the bank's assessment area or a broader statewide or regional area. **Please turn to slide 18.**

So what does "primary purpose" mean?

Primary purpose means a majority of the dollars or beneficiaries of an activity are consistent with one of the five categories of community development

Or

**Please turn to slide 19.**

If a majority cannot be established, the activity can still be considered to have a primary purpose of community development if three conditions are met:

- 1) the express, bona fide intent of the activity is community development
- 2) the activity is structured to achieve the expressed purpose, and;
- 3) the activity accomplishes, or is reasonably certain to accomplish, the community development purpose involved

**Let's move to slide 20.**

It is important to note the Interagency CRA Q&A's include a provision that allows for a pro rata share of mixed-income housing to be considered community development. So, in the case of mixed-income housing, an institution may receive pro-rata consideration for the portion of the activities that helps to provide affordable housing to low- or moderate-income individuals. For example, if an institution makes a $10 million loan to finance a mixed-income housing development in which fifteen percent of the units will be set aside as affordable housing for low- and moderate-income individuals, the institution may elect to treat $1.5 million of that loan as a community development loan. In other words, the pro rata dollar amount of the total activity will be based on the percentage of units that are set-aside for affordable housing for low- or moderate-income individuals.

Now that we have discussed primary purpose, let's talk about what is meant by an activity benefiting an assessment area or a broader statewide or regional area. **Please turn to slide 21.**

As was previously mentioned, a community development activity must benefit a bank designated assessment area or broader statewide or regional area. Please keep in mind a regional area can be as small as a city or county or as large as a multi-state area.
It is important to note the bank's assessment area does not have to receive an immediate or direct benefit, as long as the activity includes serving census tracts, businesses, or individuals within the assessment area.
**Slide 22** provides an overview of the approach to activities in the broader statewide or regional area.

Since both financial institutions and community organizations were uncertain about when, how, and to what extent community development activities in the broader statewide or regional area were considered in CRA evaluations, the Agencies addressed the issue in the revised Q&A's issued in November 2013.

The revised Q&A's clarify that community development activities that are in the broader statewide or regional area that includes the assessment area, and have a purpose, mandate, or function to serve the assessment area are considered:

As long as the assessment area is within the area served either by the activity, or by the entity that conducts the activity; Even if the specific activities undertaken during the evaluation period do not specifically benefit the assessment area.

Activities that meet these conditions are taken into consideration in determining whether the bank has been responsive to the needs and opportunities in its assessment areas.

The revised Q&A's also clarify that community development activities in the broader statewide or regional area will be considered:
even if the area served by the activity or the entity does not include the assessment area,
as long as the bank has been responsive to the needs and opportunities in its assessment area.

In order to promote consistency, the regulatory agencies issued revised large institution examination procedures on **April 18, 2014,** to incorporate the updates to the Q&As. The procedures, which can be found on the FFIEC website, clarify how examiners are to consider community development activities related to statewide and regional activities.

This would, for example, include both:
an affordable housing development in the assessment area, and
an affordable housing development outside the assessment area by a housing organization that serves the entire state.

Examiners will consider both of these categories of activities when evaluating whether a bank has been responsive to needs and opportunities in its assessment area.

If the bank is responsive to its assessment area, examiners will also consider activities in the broader statewide or regional area, even if the activities neither:
benefit the assessment area, nor
have a purpose, mandate, or function to serve individuals or geographies in the assessment area.

This would, for example, include an affordable housing development outside the assessment area conducted by a housing organization that is located within the same state or region, but does not itself serve the assessment area.
**Please turn to slide 23**

There is an exception to the assessment area and broader statewide or regional area rule.

Specifically, capital investments, loan participations, and other ventures undertaken by majority-owned financial institutions in cooperation with minority- or women-owned financial institutions and low-income credit unions. These activities will be favorably considered when analyzing CRA performance, even if these institutions are not located in, or the activities do not benefit, the bank's assessment areas or the broader statewide or regional area that includes its assessment area. The activities must help meet the credit needs of the local communities in which the minority- or women-owned financial institutions and low-income credit unions are chartered. Examples of activities undertaken by banks in cooperation with these types of institutions include such things as making a deposit or providing technical expertise to assist in improving its lending policies and practices.

**Moving on to slide 24. Review Examiner Janice Rosenberg will now discuss community development activities.**

**Review Examiner Rosenberg**: Thank you, Jim.

Now that we've gone over the definition of "community development," we are going to apply it to the activities conducted by institutions.

There are three types of community development activities: loans, investments, and services. We are going to discuss each of these activities, as well as provide some examples. We will also briefly discuss how community development activities are evaluated during the examination process. **Please turn to slide 25.**

A community development loan is an extension of credit, originated since the previous evaluation, the proceeds of which will be used for a community development purpose, and that does not meet the definition of a small business, small farm, or 1-4 family home mortgage loan.

With the exception of affordable multifamily housing loans, home mortgage, small business, small farm, and consumer loans cannot generally be considered as community development lending because they have already been evaluated under the traditional lending test criteria.

Intermediate small banks have greater flexibility. In instances where intermediate small banks are not required to report HMDA or small business or small farm loans, these loans may be considered, at the institution's option, as community development loans, provided they meet the regulatory definition of ''community development.'' Intermediate small banks that optionally report CRA loan data, but choose to be evaluated as an intermediate small bank, can also elect to have those loans removed and considered as community development loans.

However, if the intermediate small bank is evaluated as a large bank, it loses its option to consider these loans as community development loans.

Multifamily dwelling loans may be considered as community development loans provided they meet the necessary criteria to be considered affordable housing. **Please turn to slide 26.**

Some examples of community development loans include those to:
• Borrowers for affordable housing rehabilitation and construction, including construction and permanent financing of multifamily rental property serving low- and moderate-income persons;
• Not-for-profit organizations serving primarily low- and moderate-income housing or other community development needs;
• Borrowers to construct or rehabilitate community facilities that are located in low- and moderate-income areas or that serve primarily low- and moderate-income individuals;
• Financial intermediaries including Community Development Financial Institutions (CDFIs), New Markets Tax Credit-eligible Community Development Entities, Community Development Corporations (CDCs), minority- and women-owned financial institutions, community loan funds or pools, and low-income or community development credit unions that primarily lend or facilitate lending to promote community development;
• Local, state, and tribal governments for community development activities;
• Borrowers to finance environmental clean-up or redevelopment of an industrial site as part of an effort to revitalize the low- or moderate-income community in which the property is located; and
• Businesses, in an amount greater than $1 million, when made as part of the Small Business Administration's 504 Certified Development Company program. **Please turn to slide 27.**

The CRA regulation defines a community development investment as a lawful investment, deposit, membership share, or grant that has community development as its primary purpose.
In addition to new investments, institutions receive community development credit for outstanding balances of investments made prior to the current CRA examination. **Please turn to slide 28.**

This list includes some of the more commonly seen community development investment vehicles. The list is not all-inclusive. Examples include:
-Equity investment in a small business venture capital company
-Investment or grant to a CDC
-Investment in a mortgage backed security targeted to low- or moderate-income borrowers
-Investment in bonds with a primary purpose consistent with community development
-Deposit or membership share in a CDFI,
-Investment in a CRA mutual fund that has investments within the fund targeted to the bank's assessment area or broader statewide/regional area
-Grants or donations (both monetary and in-kind)

At this time, it could be helpful to discuss two common activities that do not qualify as community development investments. Lost interest from a community development loan is not considered a qualified investment, nor are the wages or compensation of a bank director or employee who provides assistance to a community development organization on behalf of the institution. **Please turn to slide 29.**

A community development service means a service that:
    -Has community development as its primary purpose;
    -Is related to the provision of financial services; and
    -Has not been considered in the evaluation of the bank's retail banking services.

The provision of financial services is defined as providing services of the type generally provided by the financial services industry. The service must utilize the employees' financial or banking-related technical expertise in order to be considered a community development service. The person conducting the activity must be performing the activity as a representative of the bank.

Further, the 2013 revised Q&As added additional examples of technical assistance that can qualify as community development services. These include providing services reflecting financial institution employees' areas of expertise at the institution such as human resources, information technology, and legal services. For example, if an employee involved in information technology services at the bank also assists a community development organization with its information technology needs as a representative of the bank, this activity will now qualify. **Please turn to slide 30.**

The list provides examples of some activities that would qualify for community development consideration. Again, the list is not all inclusive.
-Serving on the Board of an affordable housing organization
-Providing homebuyer seminars for low- or moderate-income people
-Providing loan-related technical assistance to small business owners
-Establishing school savings programs for low- or moderate-income individuals

Other qualifying community development services include providing foreclosure prevention programs to low- or moderate-income homeowners who are facing foreclosure on their primary residence, with the objective of providing affordable, sustainable, long-term loan modification and restructurings. **Please turn to slide 31.**

Another example of a community development service is providing financial education. Providing financial education is often provided at schools or through local community development organizations. Such training would qualify as community development if it is delivered at a school where the majority of students are low- or moderate-income. This can be determined by reviewing the percentage of students that are eligible for free or reduced-cost lunch programs. Information concerning free or reduced-cost lunch participants can be found on the US Department of Education's website.

In addition, financial education could be considered a community development service if it is provided in coordination with an organization providing a program primarily targeted toward low- and moderate-income individuals.

**Please turn to slide 32** for additional examples of qualifying financial education programs.

Providing financial literacy education would qualify as community development if it is delivered in a location that serves a predominantly low- and moderate-income area and is marketed to those with access to that location. An example of this situation could be training that is held at a neighborhood senior citizen center that is located in a town primarily composed of low- and moderate-income geographies or whose population is primarily low- and moderate-income.

Finally, financial education that is provided as part of an initiative to revitalize or stabilize a middle-income distressed or underserved area or to promote recovery in a disaster area would qualify as community development. The institution should verify that the area is in fact a middle-income distressed or underserved area or part of a federally designated disaster area. Institutions are encouraged to confirm this information periodically, as designations do not remain in effect indefinitely and an area that qualified in prior years may not qualify in the current year. **Please turn to slide 33.**

When evaluating an institution's community development activities, examiners will consider both the quantitative and qualitative impact of these activities. The quantitative impact of community development loans and qualified investments is measured in terms of dollar volume. This volume is then evaluated in comparison to relevant financial data. For example, examiners may calculate the dollar volume of qualified investments as a percentage of total investments.

It is important to note that the regulation does not prescribe specific benchmarks for rating a bank's community development activities. While ratios can be used as a performance indicator, the assessment of community development performance is based on each institution's individual performance context and by determining what impact the activities had on the assessment area. **Please turn to slide 34**.

Although the quantitative measurement is an important part of assessing an institution's community development performance, it is the evaluation of the qualitative impact of those activities that completes the analysis. These qualitative factors may augment the consideration given to an institution’s performance under the quantitative criteria, resulting in a higher level of performance and rating.

Examiners will assess an institution’s leadership in community development matters and the complexity, responsiveness, and impact of the community development activities of the institution. Consideration of the qualitative aspects of performance recognizes that community development activities sometimes require special expertise or effort on the part of the institution or provide a benefit to the community that would not otherwise be made available.

In some cases, a smaller loan may have more qualitative benefit to a community than a larger loan.

In reaching a conclusion about the impact of an institution’s community development activities, examiners may, for example, determine that a loan to a small business in a low- or moderate-income geography that provides needed jobs and services in that area may have a greater impact and be more responsive to the community credit needs than does a loan to a small business in the same geography that does not directly provide additional jobs or services to the community.

Similarly, investing in a CDFI that specializes in originating home mortgage loans to low- or moderate-income individuals would be considered more responsive than an investment of the same amount in a seasoned mortgage-backed security that is backed by single-family home mortgage loans, the majority of which are to low- or moderate-income borrowers. Although both of these activities may receive consideration as a qualified investment, the former example would be considered to be more responsive than the latter.

It is important to note that innovativeness and complexity are not factors in the community development test applicable to intermediate small banks.

Moving on to **slide 35**, I would now like to turn the presentation over to Valerie

**Regional Manager, Community Affairs Williams:** Thank you, Janice. Good Afternoon. I am delighted to participate in today’s call.

This afternoon, I would like to introduce the FDIC’s Community Affairs Branch, suggest a framework for identifying and engaging with qualifying Community Reinvestment Act community development opportunities, explain the importance of community development activities, and discuss some of the resources available that may be helpful to you. **Please turn to slide 36.**

The Community Affairs Branch supports the FDIC’s mission to promote stability and public confidence in the nation’s financial system. We do this in a number of ways including by:
1) stimulating the expansion of economic inclusion in the mainstream banking system;
2) assisting financial institutions in developing strategies that are responsive to the credit, service, and investment needs of the areas they serve, including low- and moderate-income communities;
3) promoting community development partnerships and access to financial services in historically underserved markets;
4) developing tools such as the FDIC Money Smart product suite to promote financial capability;
5) working with financial institutions, community-based organizations, and local governments to identify and address gaps in access to financial services and local community economic development needs and opportunities; and,
6) increasing knowledge of the Community Reinvestment Act regulation and fair lending laws.

**Please turn to slide 37.**

As you consider community development opportunities, we encourage you to utilize resources available from the FDIC. The NY Regional Community Affairs team is interested in supporting your work to expand access and support community development. Contact information will be provided at the conclusion of my presentation.

We bring people together to share information and develop or improve their strategies. For example, late last month, our team partnered with the Federal Reserve Banks of New York and Philadelphia to deliver a state-wide conference in New Jersey that brought together regulators, financial institutions, nonprofits, and municipal agencies for a day long discussion on community economic development and the Community Reinvestment Act. The conference included: a presentation on the current Economic Outlook for New Jersey; a panel discussion on the current state of community economic development in New Jersey from the perspective of organizations providing affordable housing, small business, community services, and community revitalization; CRA training for bankers, nonprofits and local government staff; and small group discussions to identify best practices in New Jersey.

As I move through the presentation, I will highlight other examples of the work done in our region that may be of interest to you. We can help institutions identify opportunities for economic inclusion and community development in their markets.
**Please turn to slide 38.**

I think most of us might agree that the success of any financial institution is closely tied to the vitality of the communities in which they do business. Bankers who recognize that community development represents an opportunity to promote the economic health of its customers and communities are likely to identify expanded business opportunities for unique lending and investment strategies and vehicles. These types of activities have the potential to result in recognition for strong performance under the Community Reinvestment Act for most institutions. **Please turn to slide 39.**

Opportunity is defined as a set of circumstances that offer the possibility for action. Increasingly, community development practitioners are looking at the circumstances more broadly and are looking to identify ways to integrate approaches that bring multiple disciplines and public, private and non-profit community leaders together. For community development opportunities, for example, there is a trend to promote plans that integrate transit, affordable housing, healthcare, as well as small business revitalization.

Along the same lines, small-business assistance organizations, bankers, economic development officials, workforce development experts, as well as educational institutions, are collaborating to create opportunities for job creation. They do this in a way that would not be possible working alone.

Now, we would like to offer a framework for engaging with CD opportunities that have the potential for positive CRA consideration. Based on our experience, we find that a basic approach is useful for bankers and others to help identify and take advantage of community development opportunities. We call it "From opportunity to action."
**Please turn to slide 40.**

First, understand what is going on and organize information from federal, state and local sources. Collect data on community development possibilities and leading organizations and review the public CRA performance evaluations of your competitors, whether locally or statewide.

Some cities have councils or groups comprised of banks, community groups and others that meet regularly to discuss and address needs. This would be an excellent network to join if you have one in your area. For example, in Philadelphia, the Urban Affairs Coalition's Community and Economic Development (CED) Committee is comprised of 50-60 mid- to upper-level representatives of banks, community development organizations, bank regulatory agencies, housing counseling agencies, and government agencies. All participants have a common interest in community reinvestment and development in low- and moderate-income communities in the five-county

Philadelphia area. The Committee provides a forum for discussing current issues and strategies, forging multi-sector partnerships that address those issues, and providing oversight and guidance in the implementation of those strategies. Our CA staff is likely involved in a group like this if it exists in your area and can connect you.

Second, more often than not, an area will have a few key people that are the spark plugs for action that can provide linkages to community resources. Network with these individuals at the local and state levels. This is another area where the FDIC Community Affairs staff and the Community Affairs staff of the other regulators might be useful to you. Staff often convene interagency events in which local leaders are invited to share data and plans which strengthen their networks and therefore their communities. In New York City, for example, an Interagency Forum on Affordable Multifamily Housing was held to provide bankers, community stakeholders and government officials with information and resources on affordable multifamily housing challenges, opportunities, and effective strategies. Financing and regulatory issues were also addressed.

The Boston Alliance for Economic Inclusion held an Open Work Group meeting that featured a research report entitled "The Color of Wealth in Boston" which supports and complements the FDIC's 2013 Unbanked/Underbanked Survey for the State of Massachusetts, giving even more credence to the need to focus work on the unbanked minority communities of Boston.

Third, assess how to connect considering the bank's capabilities and goals. And remember to involve your senior officers and your board members. Board members and senior officers can be useful in building relationships with key stakeholders and in helping to make decisions about implementing community development initiatives that can improve your community and best leverage business and CRA objectives. Successful community development can improve relationships with public officials, strengthen community reputation, increase customer trust, and identify exciting business opportunities. So, think about how to bring your bank's particular resources and expertise to those community development projects. **Please turn to slide 41.**

Fourth, connect to promising practices and involve your local network in learning. Bankers in other communities are probably looking at the same problems you are, and they may be able to suggest resources to gain new traction in your community. It's particularly helpful to convene a local network, all those nonprofit public and private sector people, to listen to those promising practices.

Finally, try a variety of initiatives and be sure that you are going to assess results. One thing we know is that it's very important to be explicit about your goals and your time for achieving action and objectives. Some activities might be short-term and easily measurable. You can probably measure a small number of home rehabs in one local community. Other goals may be multiyear and therefore require high-level leadership commitment to the multiyear objectives. **Please turn to slide 42.**

Now, I want to discuss two important FDIC resources that might help support your community development initiatives: the Money Smart suite of products and the CDFI guide.

<u>Money Smart</u>: The FDIC offers a range of financial capability tools to engage with individual consumers, schools, community development organizations, small businesses, and other varied entities interested in improving knowledge necessary to effectively connect with the mainstream banking system. The Money Smart product suite includes curricula and other resources targeted to adults, young adults, elementary school children, young people, older adults, and small business. Many institutions work with partners in their communities to provide financial education and promote financial capability. In many cases, these activities qualify as community development services. **Please turn to slide 43.**

We know that many FDIC-supervised institutions have a very strong focus on small business lending. This core strength provides a great opportunity for community development, including in small cities and rural areas. The FDIC has been working with other regulators, with the SBA and others to link banks, state agencies, SBA certified development companies, and certified community development financial institutions or CDFIs to accomplish our shared objectives.

In May 2014, the FDIC released a new resource guide, *Strategies for Community Banks to Develop Partnerships with Community Development Financial Institutions,* to inform FDIC-supervised institutions of strategies to help meet community credit and development needs – strategies that may receive consideration under the Community Reinvestment Act through collaboration with community development financial institutions (CDFIs). Under the CRA, community development activities can be delivered directly through, or in cooperation with, a CDFI partner that serves an area that includes the bank's assessment area.

So, what is a CDFI? CDFIs are specialized financial institutions that provide products and services to underserved markets, and include community development banks and bank holding companies, as well as credit unions, loan funds, and venture capital funds. CDFIs fill a niche in the financial services industry by providing credit to markets that may be difficult for traditional banks to serve. CDFIs offer flexible underwriting standards; combine a range of below-market financing with their own resources; and provide technical assistance, such as credit counseling, business training, and consumer education, with their lending activities to help ensure that borrowers use credit and capital effectively.

The resource guide provides information to help community banks identify and evaluate opportunities to partner with CDFIs. Banks should, of course, exercise appropriate due diligence in assessing opportunities to partner/collaborate with CDFIs, and maintain prudent banking principles.

A national webinar for community banks showcasing the Guide was delivered shortly after its release (July 31, 2014.) This webinar was one in the webinar series delivered by the Community Affairs Branch for bankers to offer ideas and possible strategies to enhance efforts to promote community development and economic inclusion. Each webinar highlighted a different topic.
Both the guide and webinar slides can be downloaded from the FDIC's web site. Hard copies of the guide can be obtained through the FDIC Product Catalog. **Please turn to slide 44.**

One of the other webinars was entitled *Finding Community Development Opportunities*. The webinar explored some of the diverse CRA qualifying activities available to banks, including investment and service options. Presenters, including representatives from the U.S. Department of Housing and Urban Development, the Small Business Administration, and others, highlighting strategies and resources applicable to urban, suburban, and rural areas, and provided guidance on where banks can go for additional information. As previously mentioned, a complete listing of all FDIC community development and economic inclusion webinars are available online. The webpage also identifies the agency resources featured in the webinar and additional resources related to community development. **Please turn to slide 45.**

Our team often uses the newsletters issued by the FDIC's Division of Depositor and Consumer Protection in the New York Region to feature current and emerging topics in economic inclusion and community development as well as to keep you abreast of upcoming Community Affairs outreach activities taking place throughout the Region.

In addition to resources and supports available through the FDIC directly, your institution may wish to reach out to individuals actively involved in your community to obtain valuable information regarding your geographic area. Information obtained might include, but is not limited to, community development lending, investment, and services opportunities; potential partnerships; and future business opportunities. We have found the websites of local state departments of community and economic development particularly helpful; many states offer investment opportunities that also provide tax credits. **Please turn to slide 46.**

No matter what size institution you represent, community development can be responsive to your community needs and can achieve business and CRA goals. Our New York Regional Office/Boston Area Office team can assist you in developing strategies that are responsive to the community development credit, service and investment needs of your communities. To learn more about the Branch or any of its activities or to request assistance, please contact either me, Valerie Williams or Area Manager Timothy DeLessio using the contact information found on slide 46. We have Community Affairs Specialists that are assigned to work in specific geographic areas.

On behalf of the Community Affairs Branch, thank you for your attention this afternoon.

I would now like to turn it back over to Janice who will discuss best practices for exam preparation. **Please turn to slide 47**.

**Review Examiner Rosenberg:** Thank you, Valerie. We are now going to briefly review the CRA examination process before discussing some best practice recommendations to assist you both before and during your examination.

As shown on Slide 47, a CRA evaluation consists of five stages: strategy, data verification (or data integrity), planning, analysis, and documenting the analysis. These phases are not mutually exclusive, but rather interdependent.

During the strategy phase, examiners will consider the evaluation procedures to be employed and review any significant changes to an institution's primary products or market areas. Examination planning usually coincides with the strategy phase, as examiners will determine the scope of the examination, what time frames and products will be included in the evaluation, and what areas (meaning metropolitan statistical areas or states) will be rated. If the bank is a HMDA or small business loan reporter, the data verification stage will ensure that accurate data is available for the analysis phase of the examination.

Once the examination begins, all lending data and community development activities (as appropriate) will be analyzed and evaluated, in light of relevant economic and demographic factors – more commonly referred to as the "performance context." Upon completion of the analysis, the examiners will prepare the written Performance Evaluation, which details the examination scope, performance context, and documents the analysis and conclusions.

The timeline and timeframes over which these phases occur can vary depending on the needs for that particular institution and examination resources. **Please turn to Slide 48.**

This slide provides an example of the CRA examination timeline. The time periods generally reflect the current practices of the New York Region. Each examination is unique, and these stages will vary accordingly. Please note that this is an example and should not be construed as policy.

As we discussed on the previous slide, the strategy phase is the first step of the examination process. This typically begins as early as six months prior to the actual start of the examination. The scheduling of data validation will vary, based upon the number of products to be reviewed and the number of entries reported by the bank. This process is scheduled to occur far enough in advance of the examination start date to allow time to address any integrity issues. This process ensures examiners have accurate data for the analysis part of the examination.

Supervisory agencies publish schedules of upcoming examinations each calendar quarter. Published examination schedules can be found on each agency's website, as well as the FFIEC's website.
No later than 45 days before the start of the examination, a request letter will be sent to the bank detailing the data and information the examiners will need to conduct the examination. The bank will be requested to provide some materials in advance of the onsite date, while other items can be held until the examiners arrive.

Following the analysis stage, the examiners will share preliminary conclusions with the bank at the exit meeting. They will then complete the Performance Evaluation, which will then be reviewed at the Regional Office. Once the Performance Evaluation is mailed back to the institution, a copy must be placed in the Public File within 30 days and made publically available upon request.
Again, this illustration provides a general example of an examination timeline; some of these time frames will vary by institution, field office, and region. **Please turn to Slide 49.**

We are now going to discuss some recommended best practices for preparing for your CRA examination. None of these are regulatory requirements; they are simply suggestions to assist before and during your examination.

Just as examiners develop an examination strategy, banks can develop their own strategy for examinations. Some of the suggested best practices we will discuss are shorter term items related to upcoming examinations, while others speak to longer term CRA program management and monitoring.

When developing your CRA examination strategy, it is important to understand what role community development activities will have in your performance evaluation. First, identify which evaluation procedures apply to your institution. Asset threshold information for small, intermediate small, and large banks can be found on the FFIEC's website.

For example, for small banks, examiners can consider ''lending-related activities,'' including community development loans and lending-related qualified investments, when evaluating the first four performance criteria of the small bank performance test. In addition, at the institution's request, community development activities can be considered to augment the rating from a Satisfactory to an Outstanding, provided the bank has satisfactorily met each of the lending test standards. However, community development activities can never raise a Needs to Improve or Substantial Non-compliance rating to a Satisfactory rating.

If you are an intermediate small bank, your community development activities will be evaluated collectively as to their responsiveness to your assessment area's community development needs. Innovativeness and complexity are not factors in the community development test applicable to intermediate small banks. An intermediate small bank has the flexibility to allocate its resources among community development loans, qualified investments, and community development services in amounts that it reasonably determines are most responsive to community development needs and opportunities. Appropriate levels of each of these activities would depend on the capacity and business strategy of the institution, community needs, and number and types of opportunities for community development.

If you are a large bank, your community development loans, investments, and services will be evaluated independently of each other. In addition, the innovativeness and complexity of these activities will be considered during the large bank evaluation.

Finally, wholesale and limited purpose institutions do not need to engage in all three categories of community development activities. They may engage in one or more of these activities to address their assessment area's community development needs. The performance criterion of ''innovativeness'' applies to the community development test applicable to wholesale and limited purpose institutions.

The FDIC's New York Regional Office recently implemented a procedure by which it started sending out informational letters to small banks transitioning to intermediate small banks. Going forward, the letter will be sent to transitioning banks each year. The intention is to give the banks a heads up that they are going to be an intermediate small bank and to provide them with information and a contact to call should they have any questions or need assistance with regard to the community development test. We hope this will help our banks be better prepared for their future intermediate small bank CRA examinations.

Banks examined under all evaluation procedures should consider performing self-assessments. Again, while not a requirement, performing periodic self-assessments is a good way for institutions to identify and address any performance gaps prior to the regulatory examination. It is also a good opportunity for you to refine any tracking lists to ensure that they only include activities that meet the definition of community development. Examiners should not be provided an exhaustive list of all activities and have to discern which are to be considered for community development credit. It is the banks responsibility to make those determinations prior to the examination.

Next, provide CRA training to your staff so that they are aware of the bank's CRA program and understand their role in the program. Include community development in this training, appropriate to specific job functions. If your staff understands the regulatory definition of community development, they will be more likely to appropriately identify and track community development activities for consideration at upcoming examinations. The Q&A's, which are available through the FFIEC's website as well as each agency's website, provide numerous examples of community development activities. These examples can be helpful in applying the regulatory definition to your institution's activities. In addition, review the impact that non-compliance with certain consumer protection regulations can have on a bank's CRA performance rating. Discriminatory and other illegal practices may result in a lowered CRA rating. **Please turn to Slide 50**

Banks should review their assessment area delineations to ensure that the assessment area meets the technical requirements of the regulation. Be sure that any branch openings or closing are reflected in your area, remembering the requirements for what needs to be included (that is branches and remote service facilities), as well as any restrictions concerning crossing metropolitan statistical areas or state boundaries.

Public Files should be checked to be sure they include the required materials. Remember that any changes in your assessment area must be reflected, as do any changes in branch locations, hours of operation, or product and service offerings. Be mindful of the additional content requirements that apply to HMDA reporters, banks other than small banks, and banks with less than satisfactory CRA ratings.

If your bank is a HMDA or CRA reporter, conduct an internal validation to address and correct any errors, prior to review by examiners. Also, if you are a small bank or intermediate small bank that is electing to be evaluated as a large bank, ensure that your CRA data was filed, if applicable. Please note that small banks and intermediate small banks that file their CRA data are not obligated to be examined under large bank evaluation procedures. The option to be evaluated as small or intermediate small banks remains, even if you reported your CRA data.

If you are an intermediate small bank, determine which, if any, loans you would like removed from the lending test analysis and considered instead under the community development test analysis. Please remember this flexibility only applies to banks evaluated under the intermediate small bank procedures, not large banks. **Please turn to slide 51.**

The next two best practice recommendations concern documenting and supporting your community development activities. Maintaining organized and detailed records of your activities is a best practice for ensuring a more efficient – and effective – CRA evaluation.

While not required, the use of a standard form for data collection could be helpful for organizing your community development data. To increase the effectiveness of your data collection, separate activity by year and assessment area. This helps provide a performance snapshot to management and examiners. Information that is also useful to both the bank and the examiner would include they type of activity, which of the five community development categories the activity meets, the dates of the activities, and the number and/or dollar amount of the activity. For example, loans and investments would be tracked by the dollar amount of the activity, while some services are better measured by number of participants attending a specific event.

If you implement a tracking system, it is important to train staff on its use. This could be included as part of the community development training. Roles and responsibilities should be communicated, and someone should be assigned accountability for maintaining the data. If community development data collection is an ongoing process, gathering the information for the examiners should not be overly burdensome.

In addition to tracking measurable data on their community development activities, banks should also retain supporting documentation to show how those recorded activities meet the definition of community development. Such documentation could include: rent rolls, mission statements, wage data, and prospectuses. Be sure to train respective staff appropriately to ensure they retain the necessary documentation. For example, loan officers can obtain documentation concerning loan purpose and rent rolls for multifamily loans submitted for affordable housing credit. In the case of mortgage-backed securities, investment officers can obtain information documenting that the underlying mortgages were primarily to low- and moderate-income borrowers. In the case of donations, retain information either illustrating that the beneficiary's mission meets one of the community development categories or that the funds were specifically targeted to a program or service that benefits primarily low- and moderate-income individuals, families, or neighborhoods.

Finally, supporting documentation should be maintained to show what specific geographic area benefitted from the activity to illustrate how the activity was responsive to the needs of the assessment area or a broader statewide or regional area that includes the assessment area. If your institution performs periodic self-assessments, include a documentation review in those procedures. This will help to identify any activities for which adequate supporting documentation is lacking and will give you a chance to gather the information before the examiners begin their examination. **Please turn to Slide 52**

When you receive your examination request letter, review the items and note which items are to be provided in advance and which are to be held until the examiners arrive onsite. If you have taken steps to review loan data and track community development activities, you should be well-prepared for this step. Be sure to communicate any issues or delays with the examiner as soon as possible, so that they can adjust their examination plan accordingly or provide assistance.

Finally, prepare a plan for communication during the examination. Will there be a central contact or will there be several contacts based on operational area? You should decide on a plan that will work best for you to ensure an efficient exchange of information and a smooth examination.

Now I will turn the presentation back to Regional Director John Vogel for closing comments. **Please turn to Slide 53.**

**Regional Director John Vogel:** The purpose of today's call was to help you get a better understanding of community development and to help you prepare for future CRA examinations.

Contact information for the presenters of today's industry outreach call is included on slide 54. Please feel free to contact them with questions specific to your institution.

Beginning with slide 55, you will see that we have provided a listing of different CRA references and resources that can assist with your bank's ongoing CRA efforts. The references and resources are presented under the following topics:

-Supervisory agency and other regulatory resources
-Assessment area and geographic data resources
-Performance context resources

At this time we would like to open the discussion for questions and comments.